

**REPORT OF THE AUDIT OF THE
FORMER CALLOWAY COUNTY
SHERIFF**

**For The Period
January 01, 2014 Through January 04, 2015**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER CALLOWAY COUNTY SHERIFF**

**For The Period
January 01, 2014 Through January 04, 2015**

The Auditor of Public Accounts has completed the former Calloway County Sheriff's audit for the period January 01, 2014 through January 04, 2015. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$50,733 from the prior year, resulting in excess fees of \$89,356 as of January 04, 2015. Receipts decreased by \$18,228 from the prior year and disbursements decreased by \$68,961.

Report Comments:

- 2014-001 The Former Calloway County Sheriff Had \$123 Of Disallowed Disbursements
- 2014-002 The Former Sheriff Overspent His Approved Budget
- 2014-003 The Former Sheriff Overspent The Maximum Salary Limitation Fixed By Fiscal Court
- 2014-004 The Former Calloway County Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive
The Honorable William Marcum, Former Calloway County Sheriff
The Honorable Sam Steger, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the former County Sheriff of Calloway County, Kentucky, for the period January 01, 2014 through January 04, 2015, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Larry Elkins, Calloway County Judge/Executive
The Honorable William Marcum, Former Calloway County Sheriff
The Honorable Sam Steger, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of January 04, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period January 01, 2014 through January 04, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2015 on our consideration of the former Calloway County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Calloway County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable Larry Elkins, Calloway County Judge/Executive
The Honorable William Marcum, Former Calloway County Sheriff
The Honorable Sam Steger, Calloway County Sheriff
Members of the Calloway County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former Calloway County Sheriff Had \$123 Of Disallowed Disbursements
- 2014-002 The Former Sheriff Overspent His Approved Budget
- 2014-003 The Former Sheriff Overspent The Maximum Salary Limitation Fixed By Fiscal Court
- 2014-004 The Former Calloway County Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

September 15, 2015

CALLOWAY COUNTY
 WILLIAM MARCUM, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 01, 2014 Through January 04, 2015

Receipts

Federal Grant:

| | | |
|---|----|-------|
| Community Oriented Policing Services (COPS) Grant | \$ | 4,531 |
|---|----|-------|

| | | |
|---|--|--------|
| State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) | | 46,328 |
|---|--|--------|

State Fees For Services:

| | | |
|------------------------------------|------------|---------|
| Finance and Administration Cabinet | \$ 125,683 | |
| Sheriff Security Service | 18,325 | 144,008 |

Circuit Court Clerk:

| | | |
|--------------------------|--|--------|
| Fines and Fees Collected | | 11,201 |
|--------------------------|--|--------|

| | | |
|--------------|--|---------|
| Fiscal Court | | 425,274 |
|--------------|--|---------|

| | | |
|---------------------------------|--|--------|
| County Clerk - Delinquent Taxes | | 19,771 |
|---------------------------------|--|--------|

| | | |
|-------------------------------|--|---------|
| Commission On Taxes Collected | | 525,423 |
|-------------------------------|--|---------|

Fees Collected For Services:

| | | |
|--|---------|---------|
| Auto Inspections | 17,130 | |
| School Security | 121,799 | |
| Serving Papers | 41,354 | |
| Transporting Prisoners | 9,325 | |
| Carrying Concealed Deadly Weapon Permits | 13,370 | |
| City of Hazel - Law Enforcement | 9,200 | 212,178 |

Other:

| | | |
|---------------------------|--------|--------|
| Add-On Fees | 37,529 | |
| Fire/Rescue Reimbursement | 20,000 | |
| Miscellaneous | 24,541 | 82,070 |

| | | |
|-----------------|--|-----|
| Interest Earned | | 520 |
|-----------------|--|-----|

Borrowed Money:

| | | |
|-------------------|---------|---------|
| State Advancement | 213,000 | |
| Promissory Note | 24,036 | 237,036 |

| | | |
|----------------|--|-----------|
| Total Receipts | | 1,708,340 |
|----------------|--|-----------|

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
WILLIAM MARCUM, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Period January 01, 2014 Through January 04, 2015
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

| | | | |
|--|----|---------------|--------------|
| Personnel Services- | | | |
| Deputies' Salaries | \$ | 837,777 | |
| Dispatch Salaries | | 209,438 | |
| Employee Benefits- | | | |
| Employer's Share Social Security | | 80,724 | |
| Materials and Supplies- | | | |
| Equipment Expense | | 29,884 | |
| Auto Expense- | | | |
| Vehicle Expense | | 64,947 | |
| Other Charges- | | | |
| Conventions and Travel | | 8,390 | |
| Postage | | 2,424 | |
| County Ordinance | | 7,890 | |
| Miscellaneous | | 10,146 | |
| Capital Outlay- | | | |
| Office Equipment and Supplies - COPS Grant | | 4,531 | |
| Vehicles | | 24,036 | |
| | | <u>24,036</u> | \$ 1,280,187 |

Debt Service:

| | | |
|-------------------|--------------|----------------|
| State Advancement | 213,000 | |
| Promissory Notes | 25,496 | |
| Processing Fees | 55 | |
| Interest | <u>1,586</u> | <u>240,137</u> |

Total Disbursements 1,520,324

Less: Disallowed Disbursements

| | | |
|------------------------|-----------|------------|
| Late Fees and Interest | 93 | |
| Personal Disbursements | <u>30</u> | <u>123</u> |

Total Allowable Disbursements \$ 1,520,201

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
 WILLIAM MARCUM, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 01, 2014 Through January 04, 2015
 (Continued)

| | | | |
|---|----|---------------|-------------------|
| Net Receipts | | \$ | 188,139 |
| Less: Statutory Maximum | | | <u>94,873</u> |
| Excess Fees | | | 93,266 |
| Less: Training Incentive Benefit | | | <u>3,910</u> |
| Excess Fees Due County for 2014 | | | 89,356 |
| Payment to Fiscal Court - January 12, 2015 | \$ | 40,000 | |
| Payment to Fiscal Court - February 2, 2015 | | <u>49,225</u> | <u>89,225</u> |
| Balance Due Fiscal Court at Completion of Audit | | \$ | <u><u>131</u></u> |

The accompanying notes are an integral part of this financial statement.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

January 04, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
January 04, 2015
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

| Years of Service | % paid by Insurance Fund | % Paid by Member through Payroll Deduction |
|-------------------------|---------------------------------|---|
| 20 or more | 100% | 0% |
| 15-19 | 75% | 25% |
| 10-14 | 50% | 50% |
| 4-9 | 25% | 75% |
| Less than 4 | 0% | 100% |

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
January 04, 2015
(Continued)

Note 3. Deposits

The former Calloway County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Calloway County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of January 04, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Note Payable

- A. The Office of the former Sheriff was liable for a secured note payable to The Murray Bank in the amount of \$24,036. The purpose of the note was for the purchase of a vehicle. The balance of the note was paid off in January 2015.
- B. The Office of the former Sheriff was liable for a secured note payable to The Murray Bank in the amount of \$25,496. The purpose of the note was for the purchase of a vehicle. The balance of the note was paid off in January 2015.

Note 5. Lease Agreement

The former Calloway County Sheriff was committed to a lease agreement with Howard D. Happy for a copy machine. The Office of the former Sheriff was in compliance with the terms of the agreement as of January 04, 2015.

Note 6. Special Account

The former Calloway County Sheriff's Office maintained a separate account for donations, a calendar program, as well as interest earned on the account, and other miscellaneous receipts. The beginning balance of the account was \$2,057. During calendar year 2014, there were no receipts or disbursements. As of January 04, 2015, the ending balance was \$2,057. The former Sheriff turned over the unexpended balance to the incoming Sheriff after vacating office.

Note 7. Forfeiture Account

The former Calloway County Sheriff's Office maintained a separate account for court ordered forfeitures of money and property. The beginning balance of this account was \$3,677. During calendar year 2014, the account earned \$2 of interest leaving an ending balance of \$3,679. The former Sheriff turned over the unexpended balance to the incoming Sheriff after vacating the office.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
January 04, 2015
(Continued)

Note 8. Evidence Holding Account

The former Calloway County Sheriff's Office maintained an Evidence Holding Account. Receipts for this account are interest earned on deposits, and all monies confiscated from theft or drug arrests. These funds are disbursed only by a court order. The beginning balance of this account was \$4,216. During calendar year 2014, there were \$1,226 in receipts and \$171 in disbursements leaving an ending balance of \$5,271. The former Sheriff turned over the unexpended balance to the incoming Sheriff after vacating office.

Note 9. Technology Account

The former Calloway County Sheriff was awarded a Community Oriented Policing Services (COPS) Technology Grant in the amount of \$100,000 by the Department of Justice. This amount was received in 2011 and 2012 for the purpose of updating and purchasing equipment within the office. As of January 01, 2014, the fund had a balance of \$4,530. During calendar year 2014, the account earned \$1 of interest and there were \$4,531 in disbursements. As of January 04, 2015 all grant funds have been expended.

Note 10. Unclaimed Property Account

The former Calloway County Sheriff's Office maintained an Unclaimed Property Account. The beginning balance of this account was \$2,717. During calendar year 2014, receipts totaled \$2,725, and there were no disbursements; leaving an ending balance of \$5,442. The former Sheriff turned over the unexpended balance to the incoming Sheriff after vacating the office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Elkins, Calloway County Judge/Executive
The Honorable William Marcum, Former Calloway County Sheriff
The Honorable Sam Steger, Calloway County Sheriff
Members of the Calloway County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the former Calloway County Sheriff for the period January 01, 2014 through January 04, 2015, and the related notes to the financial statement and have issued our report thereon dated September 15, 2015. The former Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Calloway County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Calloway County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Calloway County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comments and recommendations as item 2014-004 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Calloway County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, and 2014-003.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

September 15, 2015

COMMENTS AND RECOMMENDATIONS

CALLOWAY COUNTY
WILLIAM MARCUM, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 01, 2014 Through January 04, 2015

STATE LAWS AND REGULATIONS:

2014-001 The Former Calloway County Sheriff Had \$123 Of Disallowed Disbursements

The former Calloway County Sheriff had \$123 of disallowed disbursements for the period January 01, 2014 through January 04, 2015. These disbursements were disallowed for the following reasons:

- Disbursement totaling \$30 for the purchase of a coffeemaker was considered personal in nature
- Disbursements totaling \$93 for late fees and interest on credit card purchases were considered unnecessary.

In accordance with Funk vs. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Given the fact that these disbursements did not meet the necessary criteria, they have been disallowed.

Disallowed disbursements should be repaid with a deposit of personal funds, therefore, we recommend the former Calloway County Sheriff repay \$123 from his personal funds to the Calloway County Fiscal Court.

Former Sheriff's Response: None.

2014-002 The Former Sheriff Overspent His Approved Budget

The former Calloway County Sheriff's operating disbursements exceeded the budget approved by the Calloway County Fiscal Court by \$71,953. The Calloway County Fiscal Court approved the former Sheriff's budget for official expenses at \$1,582,900; however, according to his 4th Quarter Financial Report, the former Sheriff expended \$1,654,853.

The state local finance officer requires the fiscal court to approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year. KRS 68.210 states that the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials. The former Sheriff's failure to properly monitor the operating disbursements of his office has resulted in him overspending his budget, thus being in non-compliance with KRS 68.210.

The former Calloway County Sheriff should have monitored his budget throughout the year and requested budget amendments as necessary from the fiscal court, prior to exceeding budgeted amounts.

Former Sheriff's Response: None.

CALLOWAY COUNTY
WILLIAM MARCUM, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 01, 2014 Through January 04, 2015
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2014-003 The Former Sheriff Overspent The Maximum Salary Limitation Fixed By Fiscal Court

The former Calloway County Sheriff overspent his maximum salary limitation as fixed by the Fiscal Court by \$48,620. The Calloway County Fiscal Court fixed the Deputies' salary limit at \$1,000,000; however, the former Sheriff expended \$1,048,620.

KRS 64.530(3) states, "the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant."

The former Sheriff's failure to properly monitor deputies' salaries resulted in him overspending the salary limit fixed by the fiscal court. Therefore, the former Sheriff was not in compliance with KRS 64.530(3). The former Sheriff should have monitored his payroll disbursements during the year and obtained any necessary amendments, before year end.

Former Sheriff's Response: None.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-004 The Former Calloway County Sheriff's Office Lacked Adequate Segregation Of Duties

The former Calloway County Sheriff's Office lacked adequate segregation of duties. Due to a limited number of staff, the former Sheriff's bookkeeper was required to perform multiple tasks such as the collection of cash from customers, the bookkeeping function, monthly bank reconciliations, the preparation of checks for disbursements, and the preparation of monthly/quarterly reports.

A lack of segregation of duties or strong oversight increases the risk that errors could occur and not be detected. A proper segregation of duties over the accounting and reporting functions or the implementation of compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not being detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To offset this lack of segregation of duties, the former Sheriff implemented compensating controls including dual signatures and cross-checking procedures. However, these procedures were not sufficient to reduce the risks associated with the lack of segregation of duties. The former Sheriff should have segregated duties to the extent allowed by budget restrictions. For those duties that could not be segregated, strong management oversight by the former Sheriff or designee could have been a cost effective alternative. This oversight should have included reviewing daily checkout procedures, monthly bank reconciliations, receipts and disbursements ledgers, and the quarterly reports. Documentation, such as the former Sheriff or a designee's initials or signature, should have been provided on those items that were reviewed.

Former Sheriff's Response: None.

